

CHELSEA AREA FIRE  
AUTHORITY

REPORT ON AUDIT OF  
FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 29, 2008

**CHELSEA AREA FIRE AUTHORITY**

**AUTHORITY BOARD**

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Mary Ann Noah  
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**AUDITORS**

Pfeffer, Hanniford & Palka  
Certified Public Accountants

## TABLE OF CONTENTS

### PAGE NUMBER

#### INDEPENDENT AUDITORS' REPORT

MANAGEMENT DISCUSSION AND ANALYSIS	6
------------------------------------	---

#### BASIC FINANCIAL STATEMENTS

##### GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Assets	11
Statement of Activities	12

##### FUND FINANCIAL STATEMENTS

Balance Sheet - Governmental Fund	14
Reconciliation of Statement of Net Assets of Governmental Funds to the Balance Sheet	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Assets - Fiduciary Fund	18

NOTES TO FINANCIAL STATEMENTS	20
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#### REQUIRED SUPPLEMENTARY INFORMATION

General Fund	
Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	27

#### SUPPLEMENTARY INFORMATION

##### INDIVIDUAL FUNDS

###### GENERAL FUND

Statement of Revenues and Expenditures - Budget and Actual	31
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###### PUBLIC IMPROVEMENT FUND

Statement of Revenues, Expenditures and Change in Fund Balance	33
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###### TRUST AND AGENCY FUND

Statement of Assets and Liabilities	35
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August 15, 2008

Authority Board  
Chelsea Area Fire Authority  
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**INDEPENDENT AUDITORS' REPORT**

Honorable Authority:

We have audited the accompanying financial statements of the Chelsea Area Fire Authority as of and for the year ended February 29, 2008. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chelsea Area Fire Authority, as of February 29, 2008, and the respective changes in financial position, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on pages 6 through 8 and page 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chelsea Area Fire Authority's basic financial statements. The supplementary information presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

*Pfeffer, Hanniford & Palka, P.C.*

**PFEFFER, HANNIFORD & PALKA**  
**Certified Public Accountants**

MANAGEMENT DISCUSSION  
AND  
ANALYSIS

## Management Discussion and Analysis February 29, 2008

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Within this section of the Chelsea Area Fire Authority's annual financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended February 29, 2008. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

### Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

### ***Government-Wide Financial Statements***

The Authority's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

Both government-wide financial statements distinguish governmental activities of the Authority that are intended to recover all or a significant portion of their costs through user fees and charges or by taxes collected. The Authority's financial reporting includes all the funds of the Authority and, additionally, organizations for which the Authority is accountable.

### ***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Authority uses funds to ensure and demonstrate compliance with finance-related laws and regulations.

The Authority has two kinds of funds:

*Governmental funds* are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail its relation to net assets.

*Fiduciary funds* are reported in the fiduciary fund financial statements, but are excluded from the government-wide statements. Fiduciary fund financial statements report resources that are not available to fund Township activities.

### **Notes to the financial statements**

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

### **Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity.

### Financial Analysis of the Authority as a Whole

The following tables provide a summary of the Authority's financial activities and changes in net assets:

#### **Summary of Net Assets**

	Governmental Activities		
	<u>2/29/2008</u>	<u>2/28/2007</u>	<u>Increase (Decrease)</u>
Current and other assets	\$ 649,469	\$ 457,405	\$ 192,064
Capital assets	<u>957,604</u>	<u>1,033,576</u>	<u>(75,972)</u>
Total assets	<u>1,607,073</u>	<u>1,490,981</u>	<u>116,092</u>
Accounts payable	32,895	56,533	(23,638)
Accrued expenses	35,911	16,157	19,754
Debt payable	<u>539,690</u>	<u>623,383</u>	<u>(83,693)</u>
Total liabilities	<u>608,496</u>	<u>696,073</u>	<u>(87,577)</u>
Net Assets			
Invested in capital assets, net of related debt	417,914	431,249	(13,335)
Unrestricted	<u>580,663</u>	<u>363,659</u>	<u>217,004</u>
Total net assets	<u>\$ 998,577</u>	<u>\$ 794,908</u>	<u>\$ 203,669</u>

### Summary of Changes in Net Assets

	Governmental Activities		
	2/29/2008	2/28/2007	Increase (Decrease)
Revenues			
Program revenues			
Charges for services	\$ 688	\$ 23,937	\$ (23,249)
Operating grants and contributions	914,779	849,528	65,251
Capital grants and contributions	145,000	125,000	20,000
General revenues			
Other	14,665	1,921	12,744
Total revenues	1,075,132	1,000,386	74,746
Expenses for fire services	871,463	808,506	62,957
Increase in net assets	203,669	191,880	11,789
Beginning net assets	794,908	603,028	191,880
Ending net assets	\$ 998,577	\$ 794,908	\$ 203,669

#### Changes in Financial Status

The net assets of the Authority increased \$203,669 for the year ended February 29, 2008. This increase is similar to the prior year activities.

#### Financial Analysis of the Authority's Funds

The Authority's General Fund had a net change in fund balance from current year operations and transfers totaling \$211,013 to add to its fund balance.

#### General Fund Budgetary Highlights

The original General Fund budget adopted by the Authority was created prior to the beginning of the fiscal year outlining the Authority's anticipated financial operations. Small amendments were required from the originally adopted budget to reflect economic reality.

#### Capital Asset and Debt Administration

The Authority purchased several small assets during the year totaling \$33,165. The Authority did not incur any long-term debt but paid principal of \$60,414 and interest of \$26,712 this year for capital lease agreements.

#### Economic Conditions and Future Activities

Future operations and capital outlay purchases will be funded primarily by contributions from member townships.

#### Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have any further questions about this report or request additional information please contact the Chelsea Area Fire Authority.



BASIC  
FINANCIAL  
STATEMENTS

GOVERNMENT - WIDE  
FINANCIAL  
STATEMENTS

CHELSEA AREA FIRE AUTHORITY  
STATEMENT OF NET ASSETS  
FEBRUARY 29, 2008

	<u>Governmental Activities</u>
<u>ASSETS</u>	
ASSETS	
Cash and investments	\$ 624,740
Due from other governments	19,905
Accounts receivable	522
Prepaid expenses	4,302
Capital assets - net of depreciation	<u>957,604</u>
Total assets	\$ 1,607,073
<u>LIABILITIES</u>	
LIABILITIES	
Accounts payable	16,955
Accrued liabilities	18,630
Due to other governments	15,940
Vested employee benefits	
Due in more than one year	17,281
Long-term debt	
Due within one year	77,711
Due in more than one year	<u>461,979</u>
Total liabilities	<u>608,496</u>
<u>NET ASSETS</u>	
NET ASSETS	
Invested in capital assets, net of related debt	417,914
Unrestricted	<u>580,663</u>
Total net assets	<u>\$ 998,577</u>

The notes are an integral part of the financial statements.

CHELSEA AREA FIRE AUTHORITY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 29, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Fire protection	\$ (844,751)	\$ 688	\$ 914,779	\$ 145,000	\$ 215,716
Interest on long-term debt	(26,712)				(26,712)
Total governmental activities	<u>\$ (871,463)</u>	<u>\$ 688</u>	<u>\$ 914,779</u>	<u>\$ 145,000</u>	<u>189,004</u>
General Revenues:					
Investment earnings					4,957
Other income					<u>9,708</u>
Total general revenues					<u>14,665</u>
Changes in net assets					203,669
Net assets, March 1, 2007					<u>794,908</u>
Net assets, February 29, 2008					<u><u>\$ 998,577</u></u>

The notes are an integral part of the financial statements.

FUND  
FINANCIAL  
STATEMENTS

CHELSEA AREA FIRE AUTHORITY  
BALANCE SHEET  
GOVERNMENTAL FUND  
FEBRUARY 29, 2008

	<u>Major Fund</u> <u>General Fund</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equivalents	\$ 624,740
Due from other governments	19,905
Accounts receivable, net	522
Prepaid expenses	<u>4,302</u>
Total current assets	<u><u>\$ 649,469</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
LIABILITIES	
Accounts payable	\$ 32,895
Payroll liabilities	<u>18,630</u>
Total liabilities	<u>51,525</u>
FUND BALANCES	
Reserved for:	
Fire trucks	391,951
Building	72,362
Unreserved	<u>133,631</u>
Total fund balances	<u>597,944</u>
Total liabilities and fund balances	<u><u>\$ 649,469</u></u>

The notes are an integral part of the financial statements.

CHELSEA AREA FIRE AUTHORITY  
RECONCILIATION OF STATEMENT OF NET ASSETS OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET  
FOR THE YEAR ENDED FEBRUARY 29, 2008

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balance per balance sheet		\$	597,944
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.			
Historical cost	\$	1,297,400	
Accumulated depreciation		<u>(339,796)</u>	
Capital assets net of depreciation			957,604
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These include:			
Capital leases payable		(539,690)	
Vested employer benefits		<u>(17,281)</u>	
Total			<u>(556,971)</u>
Net assets of governmental activities		\$	<u><u>998,577</u></u>

The notes are an integral part of the financial statements.

CHELSEA AREA FIRE AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>General Fund</u>	<u>Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Local unit - Contributions			
City of Chelsea	\$ 390,796	\$	\$ 390,796
Dexter Township	77,568		77,568
Lima Township	161,534		161,534
Lyndon Township	172,347		172,347
Sylvan Township	253,674		253,674
Contributions	500		500
Charges for services	688		688
Interest	4,957		4,957
Grant	3,360		3,360
Miscellaneous	7,485		7,485
	<u>1,072,909</u>		<u>1,072,909</u>
Total revenue			
<b>EXPENDITURES</b>			
Current			
Fire protection	741,612		741,612
Capital outlay			
Fire	33,165		33,165
Debt service			
Principal	60,414		60,414
Interest	26,712		26,712
	<u>861,903</u>		<u>861,903</u>
Total expenditures			
Excess of revenues over (under) expenditures	211,006		211,006
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (out)	<u>7</u>	<u>(7)</u>	
Net change in fund balance	211,013	(7)	211,006
FUND BALANCE, MARCH 1, 2007	<u>386,931</u>	<u>7</u>	<u>386,938</u>
FUND BALANCE, FEBRUARY 29, 2008	<u>\$ 597,944</u>	<u>\$</u>	<u>\$ 597,944</u>

The notes are an integral part of the financial statements.



CHELSEA AREA FIRE AUTHORITY  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED FEBRUARY 29, 2008

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - governmental funds	\$ 211,006
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their useful lives as depreciation expense. The amount by which depreciation exceeded capital outlay is as follows:	
Capital outlay	\$ 33,165
Depreciation expense	<u>(109,137)</u>
Total	(75,972)
Repayment of capital lease contracts is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	
Installment contracts	60,414
Interest expense was reported in the prior year Statement of Activities. This amount represents the change in accrued interest from the prior year.	2,223
Vested employee benefits reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds - net decrease in accrual for vested employee benefits	<u>5,998</u>
Change in net assets of governmental activities	<u><u>\$ 203,669</u></u>

The notes are an integral part of the financial statements.

CHELSEA AREA FIRE AUTHORITY  
FIDUCIARY FUND  
STATEMENT OF NET ASSETS  
FEBRUARY 29, 2008

	<u>ASSETS</u>	<u>Agency Fund</u>
ASSETS		
Cash and investments		<u>\$        2,000</u>
	<u>LIABILITIES</u>	
LIABILITIES		
Due to others		<u>\$        2,000</u>

The notes are an integral part of the financial statements.

NOTES  
TO  
FINANCIAL  
STATEMENTS

CHELSEA AREA FIRE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Chelsea Area Fire Authority was established under the provisions of Act 57, Public Acts of 1988. The incorporating municipalities currently include the City of Chelsea, the Townships of Dexter, Lima, Lyndon and Sylvan. The Authority is governed by a five (5) person Board of Trustees, and one trustee from each incorporating municipality. The Authority provides fire protection and emergency services within the total territory of the incorporating municipalities pursuant to a contract with the Authority. The accompanying financial statements present the Authority's entities for which the Authority is considered to be financially accountable. The Authority has no component units.

The Authority receives its funding from each of the five (5) municipality's it provides fire protection and emergency services. The municipality's annual contribution is paid throughout the year in twelve (12) monthly installments. The municipality's contribution percentage is based upon a five (5) year sliding average of man hours.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 39 "The Financial Reporting Entity", these financial statements present all activities of the Authority. There are no component units of the Authority using the criteria established by the GASB for determining the reporting entity.

B. BASIC FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the Authority as a whole. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The government-wide Statement of Net Assets reports all financial and capital resources of the Authority. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expense between governments that allocate direct expenses and those that do not. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are fund financial statements for the governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

CHELSEA AREA FIRE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Authority reports the following major governmental fund:

- The General Fund accounts for all financial resources of the Authority not accounted for in another fund.

Additionally, the Authority reports the following fund types:

- Public Improvement Fund - The Public Improvement Fund is used to account for revenue earmarked for capital outlay requiring separate accounting because of legal provisions.
- Agency Funds - The Agency Funds account for assets held by the Authority in a trustee capacity for the Chelsea Fireman's Association, which is a fraternal organization of the Authority.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The governmental fund statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

1. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues, (including motor vehicle license fees), charges for services, fines, forfeits and penalties, and interest.
2. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
3. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Authority's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

CHELSEA AREA FIRE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated under the straight line method, over the remaining useful lives of the related capital assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	5 to 20 years
Vehicles and trucks	7 to 30 years
Buildings	20 years

E. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. BUDGETS

An annual operating budget on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America is formally adopted for the General Fund and all Special Revenue funds. The budget can be amended by approval from the Authority's Board. If necessary, budget amendments can be presented to the Board at the regular meetings. The budget amounts shown in the financial statements can be presented to the Board at the regular meetings. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. All annual appropriations lapse at the fiscal year end.

G. RISK MANAGEMENT

The Authority is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for these claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage.

CHELSEA AREA FIRE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. VESTED EMPLOYEE BENEFITS

Accrued Severance Pay - The Authority maintains a severance pay plan for regular firefighters, permanent employees, and investigators. To be eligible for severance pay, an employee must have completed ten (10) years of service. An employee may use five (5) years of reserve duty toward qualifying severance time. A reserve member must meet the requirements of the residence policy of the Authority for the reserve time to qualify. At the completion of the tenth year, an employee will have earned one thousand dollars (\$1,000) toward his/her severance fund. For each additional year completed, one hundred dollars (\$100) per year will be added to the employee's severance fund. Severance pay is accrued when the employees are vested in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only for employees terminated as of year end.

Compensated Absences - It is the Authority's policy to not permit employees to accumulate earned but unused sick pay benefits if the time is not used within the budget year. There is no liability for unpaid sick pay since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. It is the policy to permit eligible employees to accumulate earned but unused vacation pay benefits. Vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

I. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

J. RECEIVABLES

Receivables in governmental activities are all primarily due from other governments. No allowance for doubtful accounts is provided for.

NOTE 2 - CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2008 was as follows:

	Balance 3/1/2007	Additions	Deletions	Balance 2/29/2008
Fire equipment	\$ 281,730	\$	\$	\$ 281,730
Vehicle and trucks	956,795			956,795
Building	25,710	33,165		58,875
Total capital assets	1,264,235	33,165		1,297,400
Accumulated depreciation	(230,659)	(109,137)		(339,796)
Governmental activities capital assets, net	<u>\$ 1,033,576</u>	<u>\$ (75,972)</u>	<u>\$</u>	<u>\$ 957,604</u>

Depreciation expense is charged to the following activities:

Public Safety	<u>\$ 109,137</u>
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As of February 29, 2008 there was \$539,690 of long-term debt outstanding related to the Authority's capital assets.

CHELSEA AREA FIRE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2008

**NOTE 3 - LONG-TERM DEBT**

The following is a summary of long-term debt activity for the Authority:

	Balance 3/1/2007	Additions	Deletions	Balance 2/29/2008	Due within one year
Vested employee benefits	\$ 23,279	\$ 1,881	\$ (7,879)	\$ 17,281	\$
Capital lease payable	600,104		(60,414)	539,690	77,711
	<u>\$ 623,383</u>	<u>\$ 1,881</u>	<u>\$ (68,293)</u>	<u>\$ 556,971</u>	<u>\$ 77,711</u>

Capital Leases - The Authority has entered into several capital leases to purchase fire equipment, trucks, and a modular building. The interest rates on these leases range from 4.38% to 6.25% with maturity dates ranging from March 2009 until December 2015.

The Authority's outstanding lease agreements include the acquisition and corresponding cost of a rescue truck for \$230,000, a brush truck for \$69,376, a pumper truck for \$492,513, and a modular building for \$25,710. These leases qualify as capital leases. The accumulated depreciation for these assets as of February 29, 2008, was \$163,166.

The debt service for capital leases are as follows:

Year Ended February 29,	Principal	Interest	Total
2009	\$ 77,711	\$ 23,828	\$ 101,539
2010	72,547	20,400	92,947
2011	74,983	17,183	92,166
2012	67,001	13,827	80,828
2013	69,966	10,861	80,827
Thereafter	177,482	15,756	193,238
Total	<u>\$ 539,690</u>	<u>\$ 101,855</u>	<u>\$ 641,545</u>

Total interest paid for the fiscal year ended February 29, 2008, was \$26,712.



CHELSEA AREA FIRE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2008

**NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority deposits are in accordance with statutory authority.

The Authority's deposits are exposed to custodial credit risk. Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to the Authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's deposits are as follows:

<u>Deposits</u>	<u>Fiduciary Funds</u>	<u>Primary Government</u>	<u>Total</u>	<u>Bank Balance</u>
Insured	\$	\$ 100,000	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	2,000	524,740	526,740	528,029
Total cash	<u>\$ 2,000</u>	<u>\$ 624,740</u>	<u>\$ 626,740</u>	<u>\$ 628,029</u>

The Township's cash and investments are subject to various types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$528,029 of bank deposits (certificated of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Concentration of Credit Risk**

The Authority places no limit on the amount the Authority may invest in any one issuer.

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the year ended February 29, 2008 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Public Improvement	Close fund	<u>\$ 7</u>

**NOTE 6 - FUND BALANCE DESIGNATION**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CHELSEA AREA FIRE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED FEBRUARY 29, 2008

NOTE 7 - DEFINED BENEFIT PLAN -  
MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)

Effective August 2007 the Authority provides a defined benefit pension plan under MERS. MERS is an agent multiple-employer, state-wide, defined benefit public employee retirement plan created under Public Act 135 of 1945 and now operates under Public Act 220 of 1996. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. Under Public Act 220, MERS became an independent public non-profit corporation independent from State government. The effective date of independence was August 16, 1996, at which time MERS ceased to be a part of the State of Michigan, Department of Management and Budget.

As of February 29, 2008 the Authority had six (6) covered employees and twenty-five (25) total employees. Covered and total payrolls for the year then ended was \$281,910 and \$345,252 respectively. Currently there are no retirants receiving benefits from the plan. Total employer contributions made to the plan during the year ended was \$21,814. Total employee contributions were \$1,172.

At the time of this audit, actuarial information was not available.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

CHELSEA AREA FIRE AUTHORITY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED FEBRUARY 29, 2008

	Budget			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Local unit contributions for operations	\$	\$	\$ 1,055,919	\$
Grants			3,360	
Charges for services			688	
Interest			4,957	
Contributions			500	
Refunds and reimbursements			3,144	
Miscellaneous			4,341	
Total revenues	910,919	1,055,919	1,072,909	16,990
EXPENDITURES				
Current:				
Public Safety			741,612	
Capital outlay			33,165	
Debt service				
Principal			60,414	
Interest			26,712	
Total expenditures	910,919	910,919	861,903	49,016
Excess of revenues over expenditures		145,000	211,006	66,006
OTHER FINANCING SOURCES (USES)				
Transfer in			7	7
Net changes in fund balance		145,000	211,013	66,013
FUND BALANCE, MARCH 1, 2007	386,931	386,931	386,931	
FUND BALANCE, FEBRUARY 29, 2008	\$ 386,931	\$ 531,931	\$ 597,944	\$ 66,013

SUPPLEMENTARY  
INFORMATION

## INDIVIDUAL FUNDS

GENERAL FUND

CHELSEA AREA FIRE AUTHORITY  
GENERAL FUND  
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Contributions from local units	\$	\$ 1,055,919	\$
Fire runs		688	
Grants		3,360	
Reimbursements		3,144	
Donations		500	
Miscellaneous		4,341	
Interest		4,957	
	<u>1,055,919</u>	<u>1,072,909</u>	<u>16,990</u>
Total revenues			
EXPENDITURES AND TRANSFERS OUT			
Personnel		450,702	
Supplies		25,471	
Insurance		52,085	
Utilities		23,946	
Contracted services		59,119	
Debt service			
Principal		60,414	
Interest		26,712	
General administration		130,289	
Capital outlay		33,165	
	<u>910,919</u>	<u>861,903</u>	<u>49,016</u>
Total expenditures and transfers			
Excess of revenues over (under) expenditures	145,000	211,006	66,006
OTHER FINANCING SOURCES (USES)			
Transfer in		7	7
	<u>145,000</u>	<u>211,013</u>	<u>66,013</u>
Net change in fund balance			
FUND BALANCE, MARCH 1, 2007	<u>386,931</u>	<u>386,931</u>	
FUND BALANCE FEBRUARY 29, 2008	<u>\$ 531,931</u>	<u>\$ 597,944</u>	<u>\$ 66,013</u>



PUBLIC  
IMPROVEMENT  
FUND

CHELSEA AREA FIRE AUTHORITY  
PUBLIC IMPROVEMENT FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE  
FEBRUARY 29, 2008

REVENUES	\$
EXPENDITURES	<u>                    </u>
Excess of revenues over (under) expenditures	
OTHER FINANCING SOURCES (USES)	
Transfer out	<u>                    (7)</u>
Net change in fund balance	(7)
FUND BALANCE, MARCH 1, 2007	<u>                    7</u>
FUND BALANCE, FEBRUARY 29, 2008	<u><u>                    \$</u></u>

TRUST AND AGENCY  
FUND

CHELSEA AREA FIRE AUTHORITY  
TRUST AND AGENCY FUND  
STATEMENT OF ASSETS AND LIABILITIES  
FEBRUARY 29, 2008

ASSETS

ASSETS

Cash and cash equivalents

\$ 2,000

LIABILITIES

LIABILITIES

Due to others

\$ 2,000

August 15, 2008

Chelsea Area Fire Authority  
200 West Middle Street  
Chelsea, MI 48118

Dear Honorable Authority Members:

During our audit of the Chelsea Area Fire Authority we came across various matters that we would like to discuss with you as part of our audit presentation for the year ending February 29, 2008.

The matters which we would like to discuss with you are as follows:

1. There is a new auditing standard (SAS #112) which we are required to follow as your auditing firm. This new standard relates to more formal communications by us to you regarding significant deficiencies in your internal controls and accounting procedures.

There are certain issues (deficiencies) which were previously considered general comments but under the new standard are now considered significant deficiencies.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We consider the following to be material weaknesses of the Authority.

- Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principles. It should be noted that these journal entries were related to the full-accrual presentation of the government-wide statements (converting fund financial statements to full accrual statements).
  - The Authority doesn't have an investment policy.
2. During the audit we discovered receivables and payables were not reconciled.

This letter does not affect our report dated August 15, 2008 on the financial statements of the Chelsea Area Fire Authority

We will review the status of these matters during our next audit engagement. We have already discussed these with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees and management of the Chelsea Area Fire Authority and is not intended to be and should not be used by anyone other than the specified parties.

*Pfeffer, Hanniford & Palka, P.C.*

PFEFFER, HANNIFORD & PALKA  
Certified Public Accountants